

NEWS IN BRIEF

Eckerd promotes 5 execs in operations

CLEARWATER, Fla. — Harry Lambert, president of Eckerd Drug, announced the promotion of five executives in field operations.

Richard Newcomer and Oren Peacock were each promoted to senior vp-sales and operation. Newcomer, a 21-year company veteran, will supervise the chain's Charlotte, N.C., and Georgia/Alabama District. Peacock, who has been with Eckerd since 1974, will be in charge of the company's Dallas and Houston districts.

Also appointed were three new vps in store operations: David Hensley, vp-district sales and store operations manager for the Clearwater, Fla., district.

Tom Kaplan, vp-district sales and operations for the Hollywood, Fla., district.

Jerry Stettner, vp-district sales and store operations manager for Atlanta.

Med Shoppe projects net growth

ST. LOUIS — In an interview with *Drug Store News* following the annual shareholders meeting, a Medicine Shoppe International spokesman said that revenue and earnings will continue to grow at a projected 20% rate. The company also declared a 50% dividend in the form of a three-for-two stock split, which will bring the total number of shares to approximately 5.2 million when distributed March 23 to holders of record March 11.

The franchised pharmacy chain reported a 19% increase in revenues to \$4.7 million and a 22% earnings gain to \$977,918 for the first quarter ended Dec. 31, 1986. The company currently operates 653 in 48 states, and all but one is franchised. Sales for the franchised outlets increased 23% to \$75.4 million during the first quarter.

Owens & Minor to test system in DC

NEW YORK — Owens & Minor, the nation's third largest distributor to hospitals, will test its first software installation of a radio-controlled materials handling system in a distribution center this month.

Gil Minor III, president and ceo of the pharmaceuticals and medical/surgical supplies wholesaler, told *Drug Store News* at an analysts meeting that its distribution centers currently operate at 65% of capacity.

"They'll carry us through mid-1988, our next \$150 million growth in volume," he said in an interview.

Six accused in Ovulen-21 diversion

MIAMI — A Federal grand jury in Florida indicted the president of Lantor Corp.—a small, Miami-based drug and cosmetics wholesaler—and five other Florida residents on charges of masterminding the manufacture and diversion of counterfeit Ovulen-21 oral contraceptives during the early 1980's.

The 29-count indictment accuses Fermin Alfonso, president and owner of Lantor, of engaging in two separate conspiracies to distribute counterfeit versions of the Searle birth control pills, including the heavily publicized incident in 1984 that prompted a nationwide recall by the manufacturer.

It was the discovery of those bogus oral contraceptives in retail drug stores and wholesale drug warehouses across the country that triggered a sweeping Congressional investigation of drug diverters as well as the legislation pending on Capitol Hill to curb Rx drug diversion.

NWDA leader sees indys driving wholesaler growth

VALLEY FORGE, Pa. — Drug wholesalers will achieve sales growth in part through a stronger base of independent drug store customers, predicted Joseph Churchman, president of Alco Health Services and this year's National Wholesale Druggists' Association chairman.

"I think that the reduction in the number of independents has slowed down dramatically, and most of the real marginal operators have been knocked out," said Churchman, who took the helm in November for the 1986-87 year.

"The independents still there have become much stronger, and with the help of the wholesaler, are finding they can be competitive," Churchman continued in an interview with *Drug Store News*. "We may not have as many stores, but in dollars and business, you're going to continue to see growth [through independents]," he added.

Indys opening stores

Churchman noted that for the first time in a long while independents are opening new stores, helped by today's low interest rates. Meanwhile, hospital business continues to offer wholesalers another promising growth avenue.

The independents' new stability has been one of wholesaling's few constants of late, as consolidation has



'The independents still there have become much stronger, and with the help of the wholesaler, are finding they can be competitive.'

—Joseph Churchman
president, Alco Health
Services and chairman,
NWDA

changed the face of the industry. The 140 wholesale companies of 1980 have shrunk to 86 today, and acquisitions by the large players should continue the process, Churchman predicted.

A priority in this fluctuating climate must be to convince young executives that the business is in fact one of the most promising and fastest growing of fields, Churchman said. "We've got to be sure that with all our consolidation, our people understand that there are still opportunities for them. We can't afford to lose them," he said.

Wholesale sales grew

Churchman noted that wholesale sales in 1986 grew 14.8% from the previous year, outpacing the cost of goods sold by 8.65%. And health care is one of the fastest growing industries, accounting for

over 10% of the U.S. gross national product.

On the downside, wholesaler margins slipped in 1986 from 9.39% to 8.57%.

Churchman said the most pressing issue and one likely to be resolved this year is drug diversion, which should be clarified when the committee headed by U.S. Rep. John Dingell takes up House Bill 4820.

"I think this issue can be resolved this year, so we can have legislation that will clearly identify what is legal and what isn't," Churchman said.

While computerization has created unprecedented operational efficiencies, wholesalers haven't fully tapped its potential. "We can do more electronically, and eliminate paperwork," Churchman noted.

Rite Aid files for \$200M bonds

SHIREMANSTOWN, Pa. — Rite Aid Corp. has filed for a shelf registration that will enable it to raise as much as \$200 million through the sale of long-term bonds.

Money raised from the sale would be used "for general corporate purposes," the company reported, including the retirement of short-term debt incurred when Rite Aid purchased 218 SuperRx, Gray Drug and Drug Fair units late last year.

Terms of the bond issue are not yet set and will depend on interest rates and other factors. "We filed a shelf registration to have this option immediately available in case interest rates become more favorable for a new long-term bond issue," explained executive vice president Martin Grass. "We're making the arrangements now in order to have the flexibility to react quickly."

The bonds would be sold ei-

ther directly "or through agents and underwriters that may include Merrill Lynch Capital Markets," the company indicated. Merrill Lynch assisted Rite Aid in lining up capital for its acquisition of the Florida stores last year.

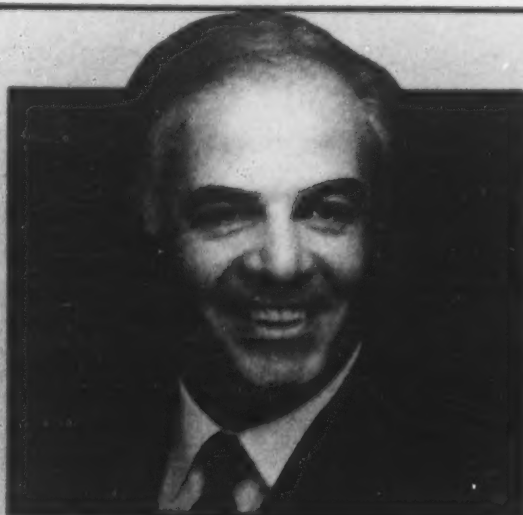
"The major thing we'd use a new bond issue for is to retire the short-term debt incurred from the store acquisitions we made last year, and replace it with long-term debt," Grass said.

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Anthony Fanticola



John Walz

DrSN hails board arrivals

Anthony Fanticola, vp-gmm at Vons Grocery Co., has joined the *Drug Store News* Board of Advisers.

In addition, John M. Walz, group president-distribution at FoxMeyer, has become a member of the *Drug Store News* Pharmacy Board of Advisers.

Like their board associates, Walz and Fanticola will be instrumental in enhancing the overall quality of *Drug Store News*' reporting by helping its editorial and management staffs identify key trends within the retail drug community.

Fanticola spent most of his 20 years in retailing at SuperRx in the Greater New York Area. He started there as a receiving clerk, then was promoted successively to store manager, to district manager and to director of merchandising. He left in 1985 to assume his current position at Vons.

He has a wife, JoAnn, three sons and a daughter.

Walz has gained broad-based wholesaling experience over the past 25 years. That experience includes warehouse operations, territory sales, sales management, branch management, corporate sales and marketing, field operations and hospital supply.

In his current post, Walz oversees operations of Fox-Meyer's 30 distribution centers and is responsible for developing prime vendor selling and the effective use of chargeback sales automation.

TRENDS

'We take little input from outsiders on what we sell at the front-end.'

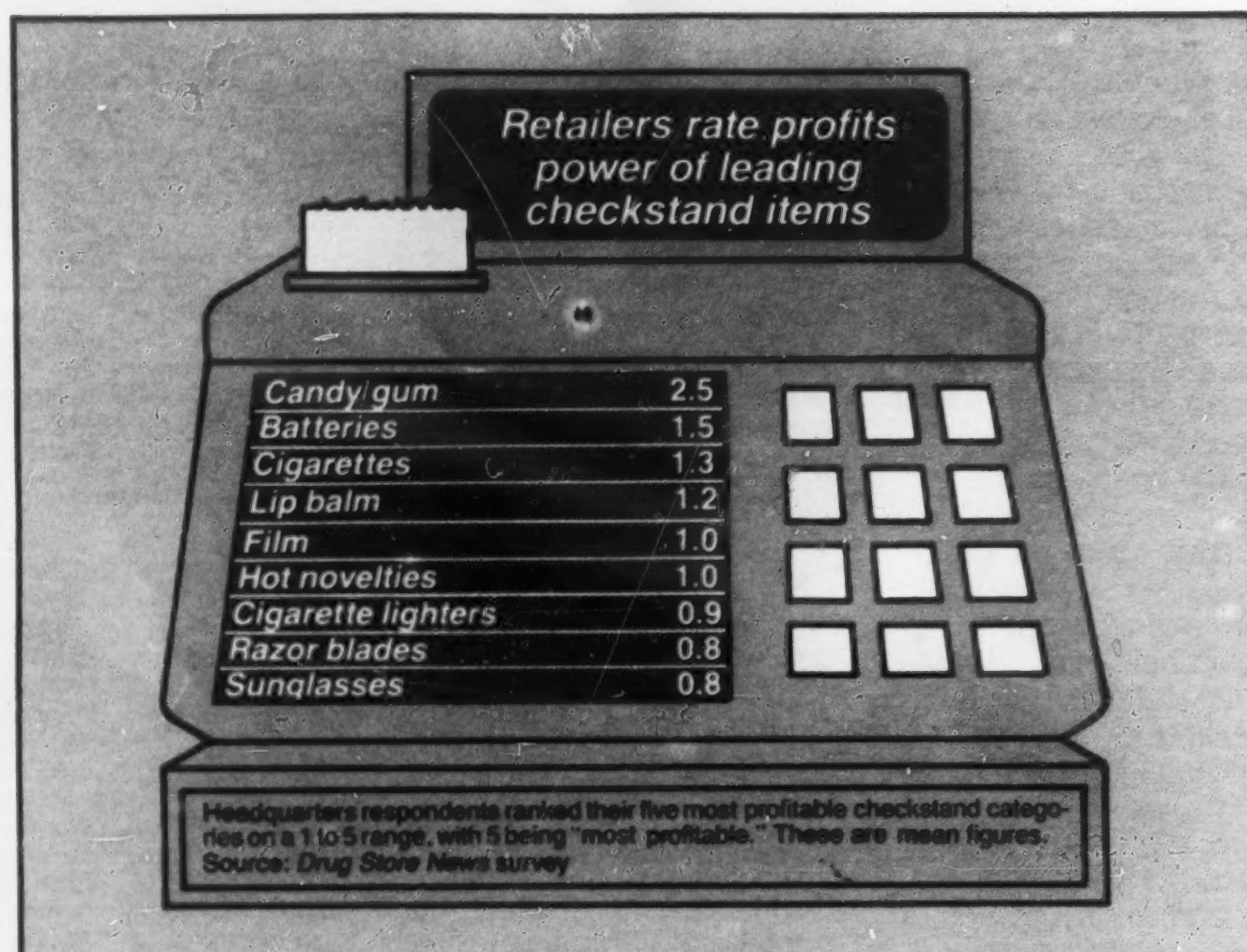
—Don Beeler,
Snyder's

'The space is too valuable. We don't test at the front-end.'

—Jerry Cardinale,
Rite Aid

Pay Less will create more flexible space at checkstands this year for hot items and seasonal goods.

—Gary Brooks,
Pay Less NW



Tom Thumb/Page is expanding its rotated assortment of sundries on J-hooks at checkstands.

—Ray Martin,
Tom Thumb Page

'You'd be surprised how fast women pick up costume jewelry and cosmetics at less than \$3-\$4. They don't need a lot of time to try them.'

—Pat Triboletti,
Happy Harry's

Checkstand 'heaven' inspires fresh approaches

With near-religious fanaticism, manufacturers pitch their products to retailers with a checkstand promise:

"Put my products there. Turns will improve."

No kidding, respond retailers, hardly in awe. They've heard every story 13 times and more. They could fill a book.

Everyone wants a piece of the checkstand traffic. But only a handful of categories ever get there.

Space-cramped drug store operators see themselves, in a way, as the gatekeepers of Checkstand Heaven. Perform well in-line, they tell vendors, and maybe we'll let you in.

There are a chosen few who seem to earn that prime space automatically—candy, mints and gum, tobacco, batteries and selected magazines. But that's about it.

Allocating space

Retailers guard their checkstand space with constant diligence. "I'd say we take little input from outsiders on what we sell at the front-end," Don Beeler, Snyder's Drug chairman, told *Drug Store News* in a classic understatement.

Drug chain operators nationwide said they generally control most of their checkstand assortments central-

ly, even though fewer than half planogram. Just 40% said they planogram front-ends, down from 47% who said they did last year.

The vast majority leave store managers with front-end influence. Nearly 3 chains in 4 surveyed said they involve store managers in checkstand merchandising decisions, and about 1 in 3 said store managers are primarily responsible for those efforts.

Three chains that planogram do so for different reasons. Perry, planogramming for the past year, began in order to speed checkout transactions by eliminating overflow of merchandise displays that hindered the flow of customers.

Tom Thumb Page does so to maintain a product mix.

Dart sets a new planogram every three months to match assortments to seasons and doesn't tolerate any deviation from store managers.

Merchandising front-end

Pay 'n Save seems to be taking checklane disciplines to a higher level. It recently hired a McCrory's variety store veteran, Jim Pappas, to be responsible for chainwide front-end merchandising efforts.

Snyder's, on the other hand, has a problem shared by Dunaway and many drug chains that limit their ability to planogram checkstands, even if they want to. They have stores of different sizes and layouts, including many older ones, so front-end sets aren't appropriate chainwide. Instead, Beeler said, his vp-marketing sends a monthly merchandiser sheet to stores that con-

trols the number of checkstand items and keeps checklanes neat. Store managers can add a demand item such as pocket combs if, say they have a youthful, transient business.

That flexibility seems more common than not. At Rite Aid, for instance, the entire candy front is planogrammed, but store managers have leeway on where to place novelties across its 24-ft.-28-ft. front-ends.

POS impact

Jerry Cardinale, assistant vp-merchandising at Rite Aid, said that point-of-sale installations in more than 300 stores so far, which are intended in part to speed checkout transactions, haven't had a detrimental effect on impulse sales. He responded to a question about whether customers felt hurried at the front-end.

Video rental departments are also changing the face of the front of the chain's stores. Cardinale said they have no measure of improved checkstand performance due to higher video traffic. The video rental counters, which generate two shopper visits per rental, are typically placed alongside the main checklanes.

The flexibility shown by retailers to locate front-end items differently by store, and to place faddish novelties there, doesn't extend often to testing products by the checklanes. Cardinale said bluntly: "The space is too valuable. We don't test there."

Testing at checkstand

Tom Thumb/Page buyer Ray Martin agreed, though he cited isolated cases

where the chain might test new magazines with good introductory offers.

In contrast, Gary Brooks, vp-merchandising at Pay Less NW, said his chain tests new products at the checkout on an ongoing basis.

Moreover, he said Pay Less is changing its checkstand displays "to create more flexible space, as opposed to a completely programmed area." This will enable the chain to "display the temporarily hot items" and have "appropriate seasonal" merchandise up front, he said.

His goal is to have permanent planogrammed year-round merchandise such as candy, gum, mints, razors, blades, batteries and magazines, while developing space for seasonal goods and in-out promotional merchandise.

Tom Thumb/Page is also changing its front-ends this year by expanding sundries on J-hooks. "The items rotate and keep a constant variety," said Martin. Scotch tape, nail clippers and rubber bands are currently displayed this way.

Uncovering hot items

He called magazines his hottest items now because of personalities on their covers. While seeking a broad mix to maximize impulse sales, Martin said he sets alternative publications in the express lane because they're often occupied by men shopping for fewer items.

Snyder's Beeler said some of his hottest items are horoscope books, updated monthly which sell at about 69¢, and football and baseball cards with gum.

Continued on page 14

Display racks used most often	
	% of HQ respondents citing use
Freestanding mfr. or floor displays	80%
Cigarette racks	77
Countertop displays	77
Candy/gum racks	73
Dump bins	73
Gravity feed displays	70
Magazine racks	70
Wire racks that display a variety of products	67
Horizontal displays	67

Source: Drug Store News survey

Seasonal checkstand favorites			
Winter	Spring	Summer	Fall
Lip balm	Candy, especially Easter candy	Suntan lotion and sunblocks	Cough drops
Cough drops	Suntan lotion and sunblocks	Lip balms	Candy, especially Halloween and Christmas candy
Christmas candy	Antihistamines	Sunglasses	Back-to-school supplies
Ice scrapers/de-icers	Kites	Key chains	Batteries
Antihistamines	Sunglasses	Shoe strings	Gloves
Analgesics		Insulated cupholders	Rain jackets
Tissues		Squirt guns	Film
Ear muffs			

Source: Drug Store News survey
Combined headquarters and store-level responses

Chains optimize assortment at checkstand

Continued from page 13

Rite Aid has done well since adding improved novelty toys at 59¢ exclusively at checkstands. The chain sells five-piece sets in the toy department.

Brooks of Pay Less said baseball cards and Kool Kubes are "doing exceptionally well."

At Happy Harry's, vp-merchandising Pat Triboletti said Cadbury Creme Easter eggs and Valentine conversation hearts at less than \$1 are among his better checkstand items.

He explained further how some costume jewelry and cosmetics priced at less than \$3-\$4 are rotated between checkstands and in-line displays. "You'd be surprised how fast women will pick these up. They don't need a lot of time to try them," Triboletti said.

"The next time they visit the store, they might find the checkstand item they saw last time is now in line. It pulls them into the store," he added.

Planogramming behind counter

Happy Harry's uses the type of checkstands used by high-volume New York operator Duane Reade, where multiple registers are staffed behind one long counter and

cashiers are elevated so they have good sight lines down aisles.

When it went to these fixtures more than two years ago, Happy Harry's pulled carton cigarettes off the sales floor and placed them behind cashiers. The chain also placed candy bars across the entire front of checkstand displays. Candy and cigarettes are planogrammed.

The pressure to have high-performance checkstands is no less at independents. And manufacturers quest for their space too.

One independent said, "I can't tell you how many times vendors came to my store and moved displays closer to registers that I had just moved slightly away."

But there's give and take, he conceded. "A tobacco vendor once came in, photographed my checkstand display of his brands and authorized my allowance. As soon as he left, I took down the displays. When he came back five minutes later for change of a dollar, he gave a double take and said, 'Sold 'em out already, huh.'"

Gatekeepers to Checkstand Heaven probably shouldn't behave that way.

How products earn checkstand space	
Impulse appeal	83%
Quick turnover	80
Inventory turns	77
High gross margin	73
Broad consumer appeal	63
Sales per sq. ft.	57
Display allowances	43
Reduced risk of theft	27
Value	23
Mfr. display available	23

Candy/gum	83%
Cigarettes	80
Cigarette lighters	80
Film	73
Lip balm	67
Batteries	57
Key rings	47
Magazines	47
Razor blades	47
Nail clippers	43

Checkstand favorites	
Candy/gum	43%
Film	33
Cigarettes/tobacco	30
Books/magazines	27
Cigarette lighters	20
Lip balm	20
Hot novelties	20
Batteries	17
Razors/blades	10

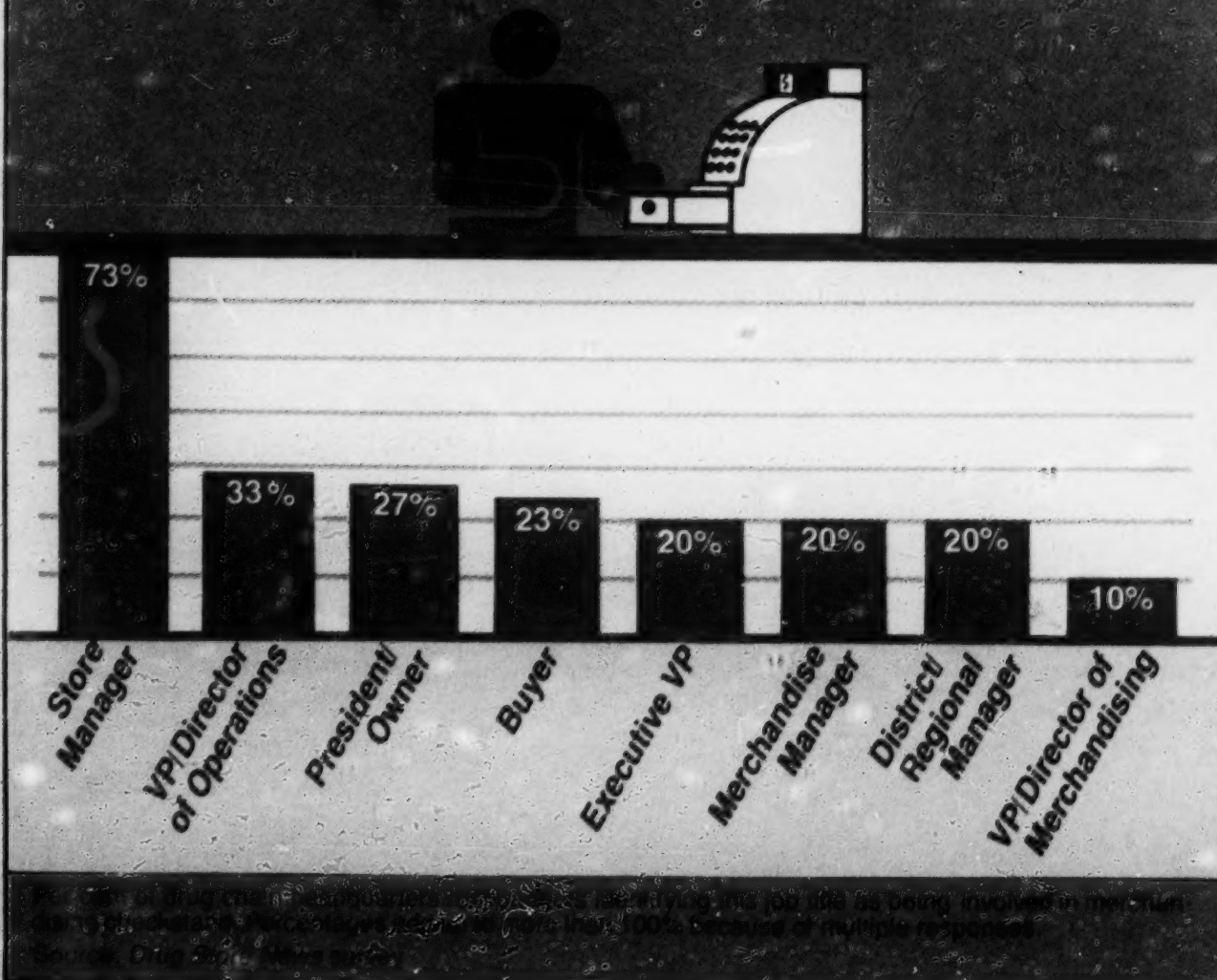
Percentages add up to more than 100% because of multiple responses from respondents. Respondents who named more than one item were asked to display it on the checkstand. Store-level responses were weighted equally, as were all responses. Data is based on 1986 survey results. Source: Drug Store News survey.

Checkstand sizzlers: The hottest front-end performers

CANDY		CIGARETTES	
Snickers Hershey Kit Kat Hershey Reese Cup M&M Peanut York Mints M&M Plain Milky Way Hershey Almond Twix Charms BlowPops Three Musketeers Hershey Mr. Goodbar Heide Gummi Bears Peter Paul Almond Joy Charms Pops Snickers King Bar Mars	Peter Paul Mounds Hershey Milk Chocolate Pay Day Baby Ruth Butterfinger Brachs Bubble Gum Pops Nerds Watermelon and Fruit Punch Cadbury Thick Bar Ludens Fifth Avenue Planters Jumbo Blocks M&M King Size Peanut Hershey Skor Hershey Rolo Payday Chocolate Covered Skittles Welch Junior Mints	Marlboro King Soft Pack Marlboro Flip Top Box Kool King Winston King Marlboro Lights King Soft Pack Salem Light King Newport Soft Pack Salem King Pall Mall King Salem Light 100 Merit King Soft Pack Winston Light King Marlboro Lights King Box Salem 100 Marlboro Light 100 Soft Pack Winston 100 Merit 100 Soft Pack Marlboro 100 Soft Pack Virginia Slim Lights 100 Menthol Box	Winston Light 100 Kool Long Ritz Benson & Hedges 100 Menthol Soft Pack Vantage King Virginia Slim Lights 100 Box Carlton 100 Kool Milds King Carlton Filter King Virginia Slims 100 Soft Pack Camel Regular Benson & Hedges 100 Light Soft Pack Virginia Slim 100 Menthol Soft Pack Kent King Merit Ultra Lights Regular
SHAVING NEEDS		GUM	
Bic Men's Shaver Disposable Bic Razor Private Label Bonus Blade— Filler Dispenser Gillette Just Whistle Good News Pivot All Star 5s Schick Super II Ultrex Razor Daisy Shaver Schick Super II w 2 Free Blades Gillette World Series	Good News Flicker Ladies Shaver Private Label Single Blade Disposable Razor Schick Super II Twin Wilkinson Sword Retractor Bic Disposable Shavers Personal Touch Disposable Razor 4s Schick Super II Pivot Razor	Wrigley Doublemint 7s Wrigley Spearmint 7s Wrigley Juicy Fruit 7s Dentyne 8s Wrigley Doublemint PlenTPak 17s Wrigley Freedent Spearmint Wrigley Freedent Peppermint Wrigley Big Red Cinnamon Bubble Yum Wacky Fruit Bubble Yum Bubble Gum	Bubblicious Wild Strawberry Trident Spearmint Chewels Sugarless Bubblegum Trident Cinnamon Wrigley Big Red Cinnamon PlenTPak Wrigley Spearmint PlenTPak Freedent PlenTPak Leaf Rainbo Wrigley Extra Sugar Free Peppermint
FILM		MINTS	
Kodacolor 200 110-24 Polaroid SX-70 Polaroid 600 Color Kodacolor 100 135-24 Kodacolor Disc 2-pack Kodacolor 400 135-24 Polaroid SX-70 2-pack Polaroid 600 Color 2-pack	Kodacolor Disc Kodacolor 400 135-36 Kodacolor 200 110-12 Kodacolor 200 135-24 Kodacolor 1,000 135-24 Kodacolor 100 135-36 Kodacolor 200 126-24 Kodacolor 400 110-24	Velamints Peppermint Sugar Free Life Savers Peppermint Certs Peppermint Certs Spearmint Lifesavers Breath Savers Sugar Free Peppermint Velamints Sugar Free Spearmint Mentos Mint Roll	Certs Cinnamon Tic Tac Assorted Life Savers Wintergreen Velamints Sugar Free Wintergreen Life Savers Five Flavor Certs Wintergreen Life Savers Crysto Certs Sugar Free Peppermint Life Savers Butter Rum
SUNDRY		BATTERIES	
Private Label Playing Cards Hoyle Bridge Cards Bicycle Playing Cards Bicycle Jumbo Cards Bee Poker Cards Bicycle Pinochle Cards Fuji VHS T-120 Congress Double Deck Bridge Coaster Set 8-pc. Memorex 60-min. Audio Tape Polaroid VHS T-120 Penn Court Heavy Duty Yellow Tennis Balls Wilson 3-pack Tennis Balls	Halls Mentholyptus Tablets Halls Cherry Halls Honey Lemon Halls Ice Blue Halls 30-pc. Mentholyptus Tablets Ludens Wild Cherry Halls Sugar Free Mentholyptus Ludens Menthol Pine Bros. Honey Pine Bros. Wild Cherry Halls Cherry Bags Halls Honey Lemon Vicks Lemon Private Label 4-oz. Bag	Duracell 4-AA Duracell 2-D Duracell 2-AA Duracell 2-C Duracell 9V Eveready Energizer 2-D Eveready Energizer 4-AA Eveready Super Heavy Duty 2-D Eveready Super Heavy Duty 4-AA Kodak Supralife 4-AA Rayovac Alkaline Smart Pack	Foster Grant Visual Scene Bonneau Opti-Ray Cool-Ray Optics Polaroid
WATCHES		TISSUES	
Casio Armitron Timex Nelsonic		Private Label White 175s Kleenex Pocket Pack 6 16s Kleenex Family 250s Kleenex Little Travelers 70s	
		SUNGLASSES	
			OTHERS Cigarette lighters Magazines newspapers Lip balms Trim nail implements Custom jewelry Novelty toys H&BA trial sizes Pocket calculators

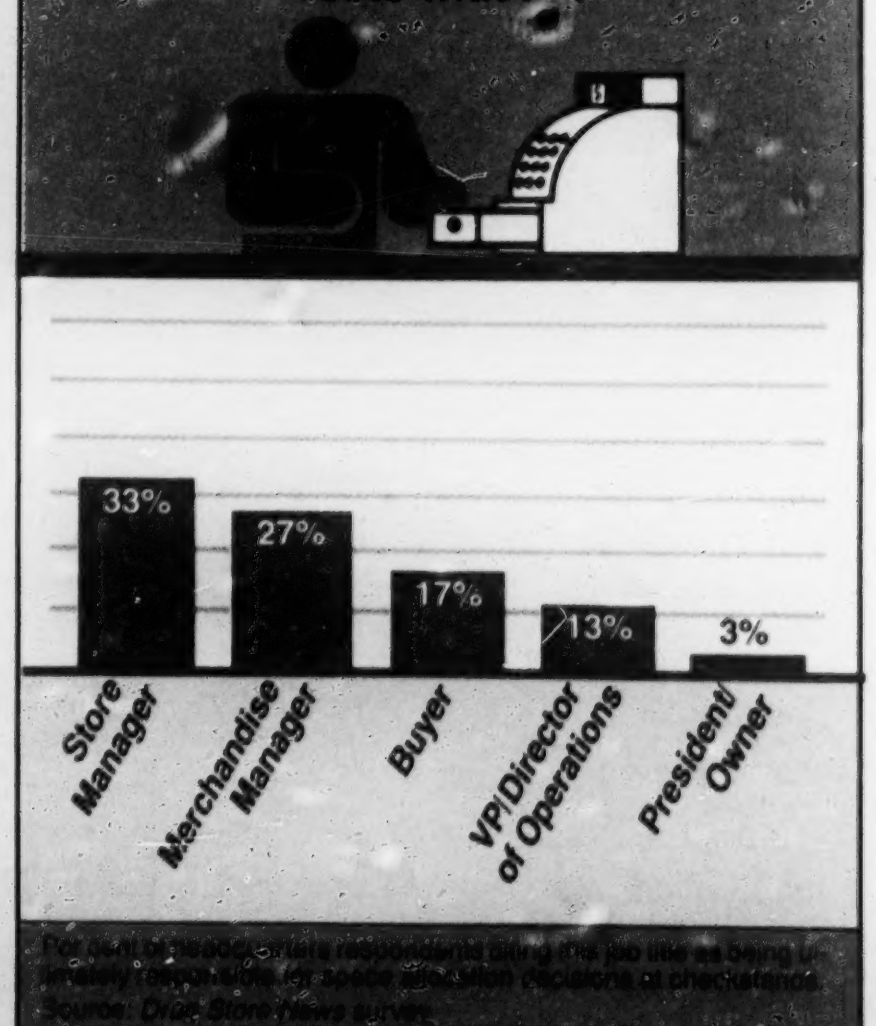
Source: Drug Chain movement data

Many levels work together to merchandise checkstands



Percent named as being involved in merchandising checkstands. Respondents could name multiple roles. Source: Drug Store News survey.

But primary responsibility rests with...



Percent named as having primary responsibility for checkstand merchandising. Respondents could name multiple roles. Source: Drug Store News survey.

Checkstand merchandising

TRENDS

Store managers mainly call the shots on endcaps

While managers from drug chain headquarters and stores disagree sometimes on who among them controls checkstands and the products that sell there, they definitely agree on endcaps.

According to responses from both retail segments, endcaps are clearly store manager turf.

Store managers, in fact, were named by 1 out of 2 store-level respondents and 1 in 3 headquarters executives as being primarily responsible for endcap decisions. In both instances, store managers had clearcut recognition as the key influence.

Merchandise managers were next most highly regarded in this area, named by 1 in 5 at headquarters and 1 in 10 at store level.

Presidents, vp-operations, district and regional managers and buyers were each named far less frequently as

holding the main responsibility for endcap merchandising.

Approach reflects products

The decentralized approach evident in these survey findings reflects the different nature of many endcap products—and the different retailer exploitation of endcaps—from those that might be sold at checkstands.

Endcaps are more likely to include health & beauty aids,

seasonal products that could vary by region, consumables and other merchandise whose sales and profits success would swing with the needs of the local market. Because movement could differ greatly by store location, the industry leaves endcap merchandising to the hands-on decision maker on the scene: the store manager.

When store managers were asked what products they

would most likely merchandise on endcaps, 33% said candy. Health & beauty aids and seasonal products both showed strongly, named by 1 in 4. Cookies and snacks, and batteries, followed next.

Preferences differ

Not surprisingly, these preferences differ from those of headquarters respondents. Theirs are shown in a chart on this page.

Who makes endcap decisions?

Store manager	33%
Merchandise manager	20
VP Operations	17
District/Regional Manager	7
Buyer	7

Source: Drug Store News survey, headquarters respondents

Products most frequently endcapped

Health and beauty aids	40%
Candy	33
Gum	23
Batteries	13
Seasonal holiday items	13
Cookies/snacks	10
Pens/pencils	10
School supplies	7
Cough syrup/medicine	7
Sunglasses	7
Toiletries	7

Source: Drug Store News survey, headquarters respondents

About the study

The 1987 Drug Store News Checkstand Merchandising Study is based on interviews with 60 merchandising, operations and store-level executives from among the Top 100 drug chains. Thirty were headquarters interviews and 30 store-level.

People interviewed are directly involved in merchandising the main checkstand areas for their retail chains.

Telephone interviews were conducted during January and February 1987 by professional interviewers under the direct supervision of Lebharr-Friedman Research.

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Congress to probe climbing Rx drug prices

WASHINGTON — Citing "out-of-control" price increases for prescription drugs, Congressional critics of the pharmaceutical industry are planning a new series of investigations into drug store

and Rx manufacturer pricing practices.

Rep. Henry Waxman's (D-Calif.) House Health Subcommittee has already announced hearings on rising drug costs this season, and at presstime,

at least two other Congressional panels were showing interest in the prescription price issue.

Behind the upsurge in Capitol Hill concern: last year's sharp, near double-digit rise in the cost of prescription medicines.

Drug price increases

According to the government's closely watched Consumer Price Index, Rx drug prices at the retail level climbed 9% during 1986, while the prices of certain key Rx subcategories posted even higher inflation rates.

The average price of circulatory and diuretic drugs, for example, rose 10.8% last year, while prices for Rx tranquilizers and sedatives jumped 13.2%.

Underscoring these stiff prescription drug price increases: the relatively modest inflation rate for other goods and services during 1987.

The overall cost of medical care in the United States climbed 7.7% last year, while nonprescription drug prices rose 5% and the total CPI for all products and services sold in '86 increased only 1.1%—the smallest overall inflation rate in decades.

Moreover, the latest figures from the government's Bureau of Labor Statistics indicate that Rx drug inflation is still on the rise.

According to the latest CPI data, prescription drug prices rose at an annual rate of 4.8% in September of last year, the inflation pace quickened to 7.2% in November, and it

reached an annual rate of nearly 11% in December.

According to drug store industry execs, the blame for this sharp upturn in prescription drug prices belongs to pharmaceutical manufacturers.

Officials at Rite Aid, for example, told *Drug Store News* they have observed particularly stiff price hikes from suppliers in recent months, with many individual Rx products rising more than 10%.

Similarly, officials at the National Association of Retail Druggists have reported that independent pharmacists are also experiencing huge increases in drug prices from suppliers.

Although a NARD spokesman refused to finger manufacturers publicly as the source of the recent price upsurge, the association has in the past described manufacturer pricing practices as "a major factor in rising prescription drug costs."

A closer examination of the new government price figures lends support to that view.

While retail Rx prices (as measured by the CPI) rose 9% last year, manufacturer Rx drug prices (reflected in the government's Producer Price Index) climbed by an even more disturbing 9.8% in 1987.

Absorbed some of hikes

If anything, those figures suggest that rather than causing the recent rash of Rx drug inflation, drug stores absorbed some of last year's manufacturer price hikes in order to soften the impact on

consumers.

For their part, representatives of the nation's brand-name pharmaceutical manufacturers attributed these stiff price increases to a leveling off in consumer demand for Rx products, coupled with sharp rises in the cost of new drug research and development.

According to officials at the Pharmaceutical Manufacturers Association, the total number of prescriptions written in the United States has risen only 1.5% during the past 10 years, while industry R&D costs have skyrocketed.

Last year, for example, drug manufacturers spent 15¢ out of every sales dollar on research and development, in contrast to only 12¢ in 1980, a PMA spokesman said.

Moreover, total R&D spending by pharmaceutical firms increased even faster than prices last year—a solid 12% rise from \$4.1 billion to a record \$4.6 billion in '86.

Other factors

But these PMA statistics explain only part of the current drug price inflation.

While the total number of prescriptions written may have shown little increase over the past decade, this is because average Rx sizes have grown substantially during that period. As a result, total consumer demand for Rx drugs is up considerably more than 1.5% since the mid-1970's.

Additionally, only about 20% of last year's manufacturer drug price increase can be attributed to the extra \$500 million spent on R&D by the industry.

Other factors contributing to the current rate of Rx price inflation include the effects of the 1984 "Waxman/Hatch" drug law amendments.

By extending the patent life of some widely prescribed Rx products, that legislation may have invited pharmaceutical manufacturers to raise prices more rapidly than they would have otherwise.

Generic competition

Ironically, the other provision of that law—changes in Food and Drug Administration drug approval practices designed to speed the introduction of cheaper generic versions—may also be partially responsible for the current rash of manufacturer price increases.

Faced with the likelihood of stiffer price competition from generics, some brand-name pharmaceutical makers may be jacking up prices excessively on products still covered by patents.

In addition to Waxman's investigation, the Labor and Human Resources Committee has expressed interest in holding drug price hearings this session.

Manufacturer drug prices: Up nearly 10% in 1986

PPI¹ for:

All OTC drugs

+ 6.2%

Rx drugs

+ 9.8%

Antispasmodics

+ 11.8%

Cardiovascular drugs

+ 10.6%

Anti-infectives

+ 1.7%

Diuretics

+ 8.3%

Hormones

+ 2.4%

Rx cough preparations

+ 8.8%

Rx vitamins

+ 7.3%

Anticoagulants

- 4.0%

Contraceptives

+ 13.3%

¹Producer Price Index for 1986

Source: U.S. Department of Labor, Bureau of Labor Statistics

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Winston-Salem, NC 27102

R. J. REYNOLDS TOBACCO USA

Retail Rx drug prices: Up 9% in 1986

CPI¹ for:

Medical care

+ 7.7%

All OTC drugs²

+ 5.0%

Rx drugs

+ 9.0%

Tranquilizers and sedatives

+ 13.2%

Anti-infectives

+ 6.0%

Circulatories and diuretics

+ 10.8%

Hormones, diabetic drugs, biologicals

+ 7.8%

and Rx medical supplies

+ 7.6%

Pain and symptom-control drugs

+ 7.6%

Supplements, cough and cold preparations and

+ 8.7%

respiratory agents

¹Consumer Price Index for 1986

²Internal and respiratory

Source: U.S. Department of Labor, Bureau of Labor Statistics

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